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# INVESTMENT SECTION

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for Fiscal Year ending June 30, 2005

## REPORT ON INVESTMENT ACTIVITY

This report is prepared by the Investment staff of the Kentucky Teachers' Retirement System.

**Mr. Paul L. Yancey, CFA**  
Chief Investment Officer

**Mr. Benny Greenwell, CPA**  
Director of Investment Accounting

### OVERVIEW

The Board of Trustees of the Teachers' Retirement System annually appoints an Investment Committee consisting of two Board members and the Executive Secretary. This Committee acts on behalf of the Board, subject to its approval, in all matters concerning investments. In compliance with the Kentucky Revised Statutes, the Board of Trustees has adopted an "Investment Policy" which it reviews periodically. The investment objectives of the Board of Trustees are as follows:

1. The funds of the Teachers' Retirement System of the State of Kentucky shall be invested solely in the interest of its members and their beneficiaries. Investment income shall be used for the exclusive purpose of providing benefits to the members and their beneficiaries and making payment of reasonable expenses in administering the Plan and its Trust Funds.
2. The specific objective of the investment program shall be the investment of the Fund's assets in securities which shall provide a reasonable rate of total return with major emphasis being placed upon the protection of the invested assets. When investments are acquired, current income together with prospects for capital appreciation shall be weighed in regard to the long range needs of providing benefits to members and their beneficiaries. Short term fluctuations in the market value of the Fund's assets shall be considered as secondary to the long-term objectives and needs of the System.

Within the Kentucky Revised Statutes and pertinent policies, the Board of Trustees and the Investment Committee shall execute their fiduciary responsibilities in accordance with the "prudent man rule", as identified in KRS 161.430 (2)(b). Investment activities shall be conducted, "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims". The responsibility for investing the assets of the System is clearly assigned to the Board of Trustees.

### INVESTMENT COMMITTEE

**MR. ARTHUR W. GREEN**  
*Chairman*

**MR. ROBERT M. CONLEY**  
*Vice-Chairman*

**MR. GARY L. HARBIN, CPA**  
*Ex-Officio Member, Executive Secretary*

### EXECUTIVE INVESTMENT STAFF

**MR. GARY L. HARBIN, CPA**  
*Executive Secretary*

**MR. PAUL L. YANCEY, CFA**  
*Chief Investment Officer*

**PROFESSIONAL CONSULTANTS**

**Investment Advisors**

**Fixed Income and Equity Managers**

Todd Investment Advisors  
101 South Fifth Street  
National City Towers, Suite 3160  
Louisville, Kentucky 40202

Invesco-National Asset Management  
400 West Market Street  
Suite 2500  
Louisville, Kentucky 40202

**Equity Managers**

UBS Global Asset Management  
UBS Tower  
One North Wacker Drive  
Chicago, Illinois 60606

Wellington Management Company  
75 State Street  
Boston, Massachusetts 02109

**Investment Consultant**

Becker, Burke Associates, Inc.  
Suite 1000  
221 North LaSalle Street  
Chicago, Illinois 60601

**Investment Custodian/Subcustodian**

Farmers Bank & Capital Trust Co.  
Farmers Bank Plaza  
Frankfort, Kentucky 40601

The Bank of New York  
One Wall Street  
New York, New York 10286

**INVESTMENT CONSULTANT'S STATEMENT**

Becker, Burke Associates served as Investment Consultant to the Kentucky Teachers' Retirement System during the 2004-05 fiscal year as it has in several previous years. Becker, Burke Associates is familiar with the operation of the System's investment program as well as its performance. The investment program of the Retirement System is operated in a prudent manner that reflects a desire to preserve capital while maximizing returns. The assets of the Retirement System are assigned to various portfolios in order to diversify the System's investments and take advantage of opportunities in various asset classes and sectors. The System gravitates toward relatively conservative holdings in each asset class. The overall effect of diversification is to minimize risk. The manner in which the Retirement System operates and its investment results are commensurate with other risk-averse institutional investors in similar regulatory environments.



Edmund M. Burke  
President  
Becker, Burke Associates  
September 6, 2005

## ASSET ALLOCATION

The Board of Trustees and the Investment Committee are guided by asset allocation parameters that the Board approves through its powers defined in KRS 161.430. The asset allocation limits complement the investment principles used by the Board and Committee regarding security, diversification, high return, and liquidity. The asset allocation policy is adopted by the Board of Trustees and approved in the form of administrative regulation. The asset allocation parameters are structured in order to maximize return while at the same time provide a prudent diversification of assets and preserve the capital of the Teachers' Retirement System. The Board is interested in assuming secure investments that will provide long term growth to the fund. The Board does not arbitrarily compromise security in order to enhance the prospects of return. The Investment Committee and the Board are mindful of the fund's liquidity and its capability at meeting both short and long term obligations. Asset allocation parameters follow:

1. There will be no limit on the amount of investments owned by the System that are guaranteed by the U.S. Government.
2. Not more than 35% of the assets of the System at book value shall be invested in corporate debt obligations.
3. Not more than 60% of the assets of the System at book value shall be invested in common stocks or preferred stocks. No more than 25% of the assets of the System at book value shall be invested in a stock portfolio designed to replicate a general, U.S. stock index.
4. Not more than 10% of the assets of the System at book value shall be invested in real estate. This would include real estate equity, real estate lease agreements, mortgages on real estate that are not guaranteed by the U.S. Government, and shares in real estate investment trusts.
5. Not more than 1% of the assets of the System at book value shall be invested in venture capital investments providing at least 75% of such investments must be in-state.
6. Not more than 10% of the assets of the System at book value shall be invested in any additional category or categories of investments. The Board shall approve by resolution such additional category or categories of investments. Within this parameter, to further diversify the portfolio, the Board approved provisions that permit the limited ownership of both foreign equities and timberland.

The asset allocation of investments at market value was somewhat different at the beginning of the fiscal year than it was on June 30, 2005. In addition, the market value allocation of assets through the dynamics of the securities markets is different than the book value allocations. During the 2004-05 fiscal year, the market value of the stock position remained the same as the previous year at 56% of assets. The portion of the portfolio in Government securities remained the same at 19%. The cash position increased slightly during the year to 9.5% of assets. The real estate equity position remained a relatively small portion of the System's portfolio at approximately 3%.

The Kentucky Revised Statutes require the Board of Trustees to employ experienced investment counselors to advise it on investment related matters. Todd Investment Advisors was employed during 2004-05 as the System's principal investment counselor, providing assistance in the management of \$2.5 billion of stocks and bonds. Invesco-National Asset Management, UBS Global Asset Management, and Wellington Management Company also were retained during the 2004-05 fiscal year to provide investment counseling services. Invesco-National Asset

Management assisted in the management of approximately \$937 million in bonds, as well as managing about \$940 million in equity investments. UBS Global Asset Management, formerly Brinson Partners, was responsible for managing approximately \$1.1 billion in equities, and Wellington Management Company managed about \$798 million in equities. In addition to monitoring the investment counselors, the in-house investment staff managed about \$7.3 billion of fixed income and equity assets. All of the investment firms, while specializing in particular asset classes or sectors, are required to work within the same broad objectives, portfolio constraints, and administrative guidelines. Four investment counselors plus an in-house staff provide the Board of Trustees with a diversification of management that is appropriate for a \$13.6 billion fund. The Farmers Bank & Capital Trust Company, located in Frankfort, Kentucky, was retained in 2004-05 as the Custodian of Securities with the Bank of New York serving as a sub-custodian.

The System regularly votes proxy statements associated with its equity ownership. The positions assumed by the System are intended to represent the financial interests of the membership. The Board of Trustees has adopted a policy that directs the staff not to subjugate the financial concerns of the System to social or political protests. At the same time, the System expects the companies in which it acquires stock to be solid corporate citizens that abide by Federal, state, and local laws.

## FINANCIAL ENVIRONMENT

After booming in the previous fiscal year, equity returns generally cooled in the fiscal year ended June 30, 2005 as economic growth moderated, short-term interest rates rose and oil prices continued to climb. Returns were widely variable by sector, however, with the energy and utility components of the S & P 500 Index returning 39.3% and 39.1%, respectively, while the information technology sector returned -3.5%. Overall, the S & P 500 returned 6.3% for the fiscal year. The narrower thirty-stock Dow Jones Industrial Average returned only 0.7%. In a continuing trend, smaller company stocks outperformed those of the largest companies. The S & P 400 Mid Cap Index returned 14.0% for the fiscal year while the Russell 2000 Small Cap Index returned 9.5%.

As the economic recovery matured, growth rates, while remaining healthy, slowed to a more sustainable pace. Gross domestic product, adjusted for inflation, grew 3.6% over the fiscal year, down from 4.6% in the previous twelve months. Industrial production rose 3.9%, down from 4.7% in the previous year. The labor market continued to gradually improve, with the unemployment rate falling from 5.6% to 5.0% over the fiscal year. With the economy on an expansionary track, the Federal Reserve moved methodically to remove its accommodative monetary policy, raising the federal funds rate over the fiscal year from 1.25% to 3.25%. With the exception of energy, inflation remained relatively well-contained. The Consumer Price Index, excluding food and energy, rose 2.0% over the fiscal year, up from 1.9% over the previous fiscal year. Oil prices were the big story, rising over fifty percent from about \$37 per barrel on June 30, 2004 to \$56.50 by June 30, 2005. The combination of moderating economic growth, which slowed profit growth, rising short-term interest rates, and concerns about the future impact of higher energy prices generally had a restraining influence on equity valuations over the year.

Bond market returns were surprisingly strong in the fiscal year ended June 30, 2005. While the Federal Reserve spent the fiscal year steadily raising short-term interest rates, yields on long-term bonds fell, causing prices to rise. This unexpected development -- called a "conundrum"

by Federal Reserve Chairman Greenspan at one point -- seems to have been the result of long-term expectations for low inflation and a global liquidity surplus, with savings exceeding productive investment. The short-term federal funds rate rose from 1.25% on June 30, 2004 to 3.25% on June 30, 2005, while the yield on the thirty-year Treasury bond declined from 5.29% to 4.19%. The most important determinant of a bond's total return over the year was its maturity, with long-term bonds rallying in price while returns on short-term obligations were weak. The Lehman Government/Credit Index returned 7.3% for the fiscal year. Corporate bonds, especially those of lower credit quality, outperformed government bonds. The Citi High Yield Index returned 10.4%. The Lehman Mortgage-Backed Index returned 6.1%.

## PORTFOLIO CHARACTERISTICS

At year's end, the System's entire stock portfolios, exclusive of the stock index fund, could be characterized as high quality and diversified. The KTRS portfolio, as measured by beta, was approximately as risky as the Standard & Poor's 500 Index. Beta is a measure of the volatility in price of a particular stock or portfolio compared to the volatility of the index. The beta of the KTRS portfolio at the end of the fiscal year was 1.02. The KTRS portfolio registered a price-earnings multiple that was lower than the index. The price-earnings ratio for the portfolio at the end of the fiscal year was 18.5, compared to 19.0 for the index. Two factors attesting to the high quality of the portfolio were the high rate of growth in both earnings per share and dividends per share. The average earnings growth rate over the past five years for the KTRS stock portfolio was 11.9%. The average dividend growth rate for the past five years of the KTRS portfolio was 8.9%. At the end of the 2004-05 fiscal year, the yield level for the KTRS portfolio stood at 1.9%, which was the same as the index yield.

The stock position, apart from the stock index fund, began the 2004-05 fiscal year by being 31.2% of assets at market value, and by year-end, it constituted 39.8% of assets. In dollars, the value of the stock position increased from approximately \$4.0 billion to about \$4.3 billion in 2004-05. The two stock index funds represented another \$3.4 billion that was invested in stocks at year end. Stock selections during 2004-05 affected a variety of market sectors. At the end of 2004-05, the sector weightings in the KTRS stock portfolio were similar to those of the Standard & Poor's 500 Index. The greatest differences were underweightings by KTRS in the consumer staples and health care sectors and overweightings in the financials, industrials, and materials sectors.

On June 30, 2005, the System's entire bond portfolio had a duration of 5.4 years. The coupon rate for the holdings was 5.6%. As of June 30, 2005, the average maturity of the fixed income portfolio was 8.1 years. The maturities of fixed income investments will generate cash for the fund in future years. Approximately 81% of the fixed income investments, including short term cash equivalents, will mature by the end of 2017, about 12 years. This will assist the System in meeting retirement fund obligations as well as permit it to assume new investments.

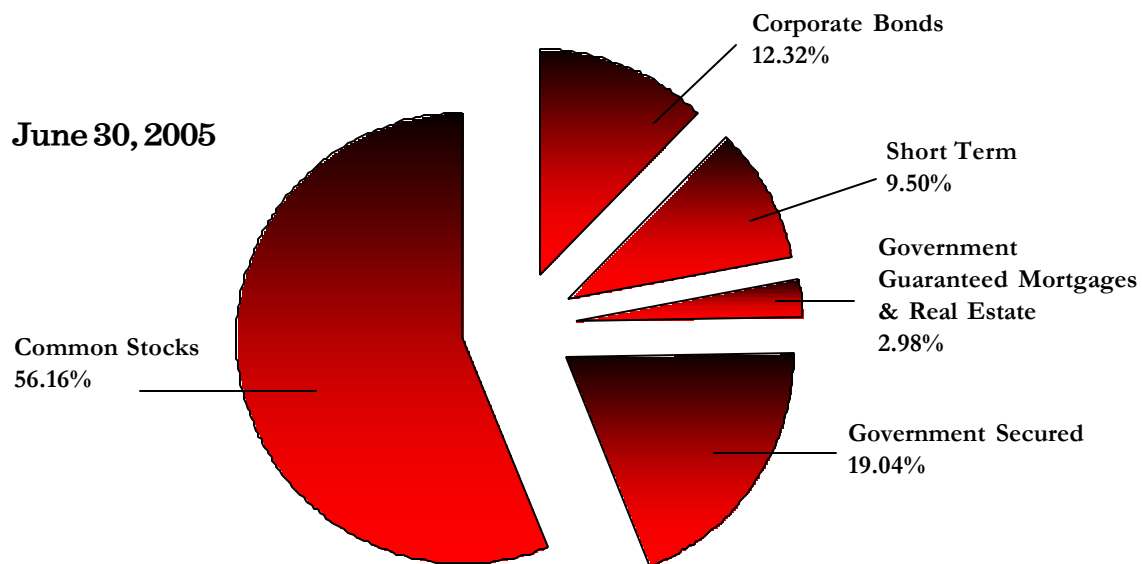
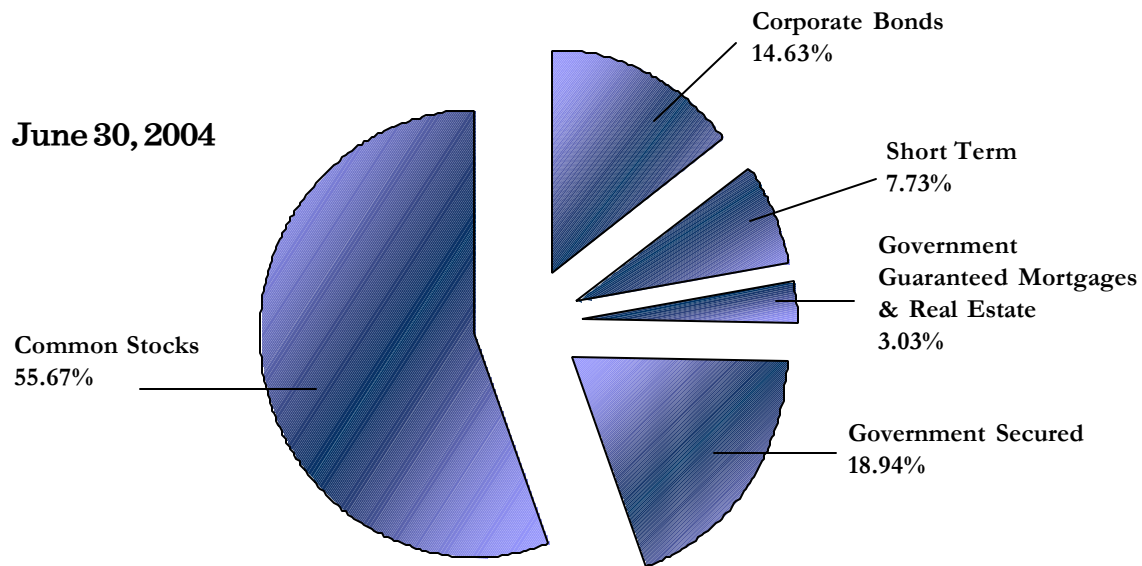
## PORTFOLIO RETURNS

The investment portfolio experienced growth in book values and its market value during the 2004-05 year. The market value of the portfolio increased \$596.0 million to a total of \$13.6 billion at year-end. The book value of the fund increased \$157.0 million during the year. The System accumulated in excess of \$520 million of investment income during 2004-05; this investment income total excludes monies earned but not received by the end of the fiscal year. The income resulted from interest, dividends, rental income, lending income, and gains.

For the 2004-05 fiscal year, the total return earned by the System's stock position is higher than the return generated by the Standard & Poor's 500 Stock Index. The KTRS stock position earned a total return of 7.9% in 2004-05, while the stock index earned 6.3%. The ten year annualized return for the years 1995 through 2005 was 10.4% for the System's stock position and 9.9% for the stock index. The System's bond position earned a ten year annualized total return of 6.9%. This is slightly higher than the 6.8% return earned by the Lehman Government/Credit, High Quality, Index. In 2004-05, the System's bonds earned a total return of 7.6%, while the Lehman Index earned 7.0%. The entire portfolio earned a total return of 7.5% in 2004-05. The portfolio's ten year annualized rate of total return was 8.3%. The total return of the portfolio over ten years more than kept up with the rate of inflation and provided real growth. In 2004-05, the Consumer Price Index registered an inflation rate of 2.5%. The ten year annualized rate is 2.5%. The System conforms to "AIMR Performance Presentation Standards" in calculating portfolio returns.

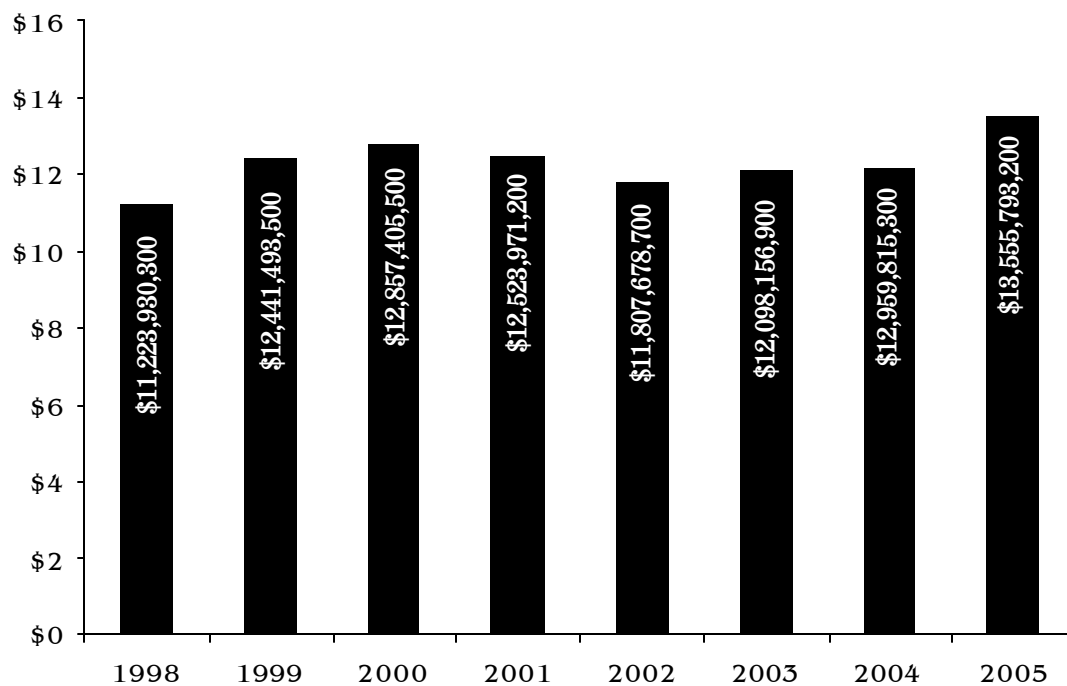
The charts that follow this narrative graphically display the growth that is discussed in the preceding paragraphs. Following the charts is a summary description of investments held at June 30, 2005. The System annually produces a detailed investment report that is available on request.

**Distribution of Investments  
Market Values**

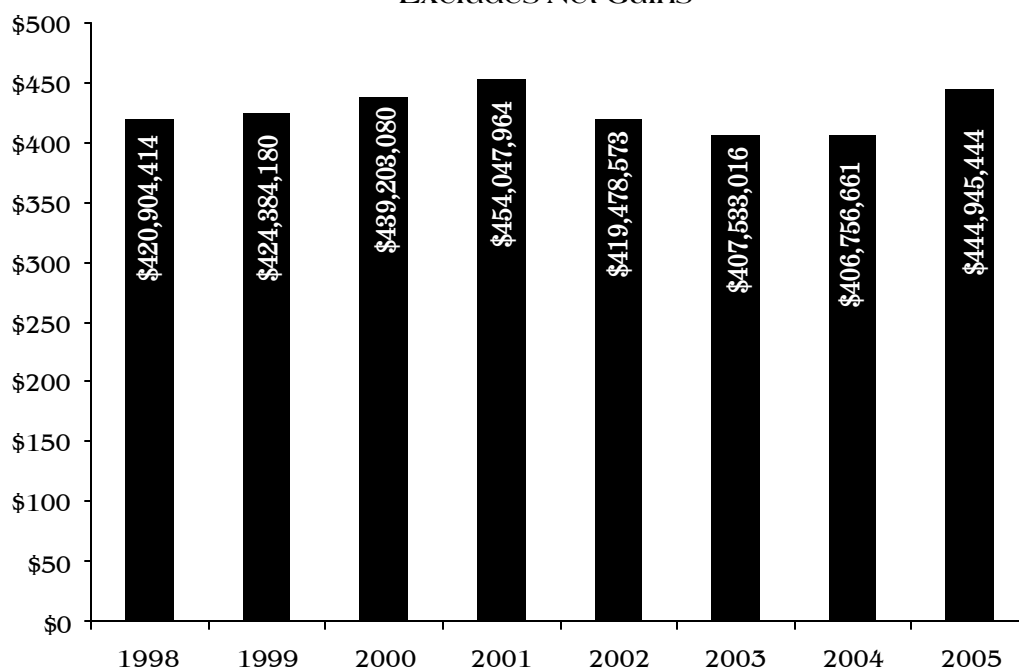




### Investment Portfolio Growth Market Values



### Investment Income Growth Excludes Amortization Excludes Net Gains



Year Ended June 30, 2005

KENTUCKY TEACHERS' RETIREMENT SYSTEM

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**Total Return on KTRS Investments\***  
**Percentages**

Fiscal Year	Standard & Poor's 500 Index	KTRS Stocks	Lehman Govt./Credit High Quality Index	KTRS Bonds	Consumer Price Index	KTRS Cash Collection Fund	KTRS Real Estate	KTRS Total Portfolio
1995-96	26.0	25.3	4.6	4.3	2.8	6.0	11.6	13.5
1996-97	34.7	33.1	7.6	7.8	2.3	5.8	8.8	19.6
1997-98	30.2	29.2	11.3	11.6	1.7	6.1	9.7	19.4
1998-99	22.8	22.0	2.7	2.3	2.0	5.3	9.7	11.5
1999-00	7.3	3.6	4.6	4.9	3.7	5.8	9.9	4.1
2000-01	(14.8)	(8.9)	11.0	10.9	3.3	6.0	9.5	(0.7)
2001-02	(18.0)	(14.5)	8.6	9.5	1.1	2.5	6.0	4.1
2002-03	0.3	(1.1)	12.3	12.4	2.1	1.5	9.3	4.8
2003-04	19.1	19.2	(1.2)	(0.7)	3.2	1.0	9.7	9.7
2004-05	6.3	7.9	7.0	7.6	2.5	2.3	9.6	7.5
Three Year Annualized Rate	8.3	8.4	5.9	6.3	2.6	1.6	9.5	7.3
Five Year Annualized Rate	(2.4)	0.0	7.4	7.8	2.4	2.6	8.8	3.3
Eight Year Annualized Rate	5.4	6.2	7.0	7.1	2.4	3.8	9.2	6.3
Ten Year Annualized Rate	9.9	10.4	6.8	6.9	2.5	4.2	9.4	8.3
Fifteen Year Annualized Rate	10.7	11.3	7.7	7.9	2.7	4.7	8.7	8.9
Twenty Year Annualized Rate	12.3	12.6	6.1	8.6	3.0	---	---	9.6

*\* Teachers' Retirement System of the State of Kentucky has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS). AIMR has not been involved with the preparation or review of this report.*

**Investment Summary  
Fair Market Value  
06/30/2005**

Type of Investment	Fair Value 07/01/04	Acquisitions	Appreciation (Depreciation)	Sales Redemptions, Maturities & Paydowns	Fair Value 06/30/05
Short Term	1,002,300,000	38,868,504,700	65,300	38,583,070,000	1,287,800,000
Fixed Income	4,376,987,400	1,053,032,300	103,294,300	1,263,522,700	4,269,791,300
Equities	7,580,527,900	1,288,859,800	408,954,800	1,280,140,600	7,998,201,900
<b>TOTAL</b>	<b>12,959,815,300</b>	<b>41,210,396,800</b>	<b>512,314,400</b>	<b>41,126,733,300</b>	<b>13,555,793,200</b>

**Contracted Investment Management Expenses  
(\$ Thousands) as of 06/30/2005**

	Assets Under Management	Expenses	Basis Points *
<b>INVESTMENT MANAGER FEES</b>			
Fixed Income Managers	\$ 936,743	\$ 342	3.6
Equity Managers	2,789,585	2,975	10.7
Balanced Manager	<u>2,543,025</u>	<u>875</u>	3.4
<b>TOTALS</b>	<b>\$ 6,269,353</b>	<b>\$ 4,192</b>	<b>6.7</b>
<b>OTHER INVESTMENT SERVICES</b>			
Custodian Services	\$ 13,555,793	\$ 433	0.3
Investment Consultant		<u>45</u>	
<b>TOTAL</b>		<b>\$ 478</b>	
<b>GRAND TOTAL</b>		<b>\$ 4,670</b>	<b>3.4</b>

\* One basis point is one-hundredth of one percent or the equivalent of .0001.

# Transaction Commissions

06/30/2005

COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE
A G EDWARDS	861,200	\$34,448.00	0.0400
ADAMS HARKNESS & HILL INC	37,700	1,748.00	0.0464
ADVEST INC	1,539,030	61,561.20	0.0400
AVONDALE PARTNERS	7,800	312.00	0.0400
B TRADE SERVICES	68,385	683.85	0.0100
BANC OF AMERICA SECURITIES	3,073,850	\$155,009.50	0.0504
BASS TRADING LLC	9,700	427.00	0.0440
BEAR STEARNS & CO	266,500	12,214.00	0.0458
BNY BROKERAGE	5,700	228.00	0.0400
BOENNING & SCATTERGOOD	19,400	\$582.00	0.0300
BRANDT ROBERT	5,800	\$174.00	0.0300
CANTOR FITZGERALD	61,100	\$2,444.00	0.0400
CHAPDELAINE PENSION	13,700	\$548.00	0.0400
CIBC OPPENHEIMER WORLDMARKET	2,000	80.00	0.0400
CITIGROUP	3,879,690	167,416.50	0.0432
COWEN & CO	108,059	4,201.27	0.0389
CS FIRST BOSTON	2,893,660	\$137,670.40	0.0476
D A DAVIDSON & CO	1,800	1,738.80	0.9660
DEUTSCHE BANK SECURITIES	252,300	\$5,492.00	0.0218
E-TRADE CAPITAL MARK	2,400	96.00	0.0400
EURO BROKERS	32,600	915.00	0.0281
FIDELITY CAPITAL MARKETS	11,900	357.00	0.0300
FREIDMAN BILLINGS	59,700	15,542.00	0.2603
FULCRUM GLOBAL PARTNERS	7,000	\$280.00	0.0400
G G E T LLC	8,200	403.00	0.0491
GOLDMAN SACHS & CO	4,241,116	\$192,896.09	0.0455
HARBORSIDE SECURITIES	27,700	554.00	0.0200
HARRIS NESBITT GERAR	49,900	\$2,495.00	0.0500
HELFANT INC	2,300	57.50	0.0250
HOWE BARNES INVESTMENT	32,700	\$1,635.00	0.0500
INSTINET	200	2.00	0.0100
INVESTMENT TECHNOLOGY	13,406,938	\$249,473.97	0.0186
ISI GROUP	1,293,500	51,740.00	0.0400
J J B HILLIARD W L LYONS	1,239,300	\$49,572.00	0.0400
JEFFERIES & CO	3,846,110	\$173,944.83	0.0452
JEROME P DUNLEVY	900	\$36.00	0.0400
JOHNSON, RICE & CO	4,000	3,200.00	0.8000
JONES & ASSOCIATES	5,400	\$234.00	0.0433
JP MORGAN CHASE	425,720	22,895.00	0.0538
KEEFE BRUYETTE & WOODS	66,200	\$2,879.00	0.0435
KNIGHT SECURITIES	71,100	2,792.00	0.0393
KV EXECUTION SERVICES	155,800	3,895.00	0.0250
LAZARD FRERES & CO	3,208,700	\$129,598.00	0.0404
LEERINK SWANN & CO	75,600	2,921.00	0.0386
LEGG MASON WOOD WALKER	1,368,498	54,739.92	0.0400
LEHMAN BROTHERS	5,147,734	\$240,075.76	0.0466

Year Ended June 30, 2005

*Transaction Commissions continued . . .*

COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE
LEXINGTON INVESTMENT CO	933,800	37,352.00	0.0400
LYNCH JONES & RYAN INC	2,200	88.00	0.0400
MERRILL LYNCH	7,512,062	\$279,136.36	0.0372
MOORS & CABOT	5,500	220.00	0.0400
MORGAN KEEGAN & CO	1,323,420	54,579.20	0.0412
MORGAN STANLEY/DEAN WITTER	5,374,821	251,216.93	0.0467
NYFIX TRANSACTION SERVICES	98,500	\$955.00	0.0097
OTA LIMITED PARTNERS	58,000	\$2,320.00	0.0400
PIPELINE TRADING	12,900	193.50	0.0150
PRUDENTIAL SECURITIES	660,100	26,423.00	0.0400
RAYMOND JAMES & ASSOCIATES	2,631,500	105,260.00	0.0400
RBC DAIN RAUSCHER INC	15,500	\$620.00	0.0400
ROSS SINCLAIRE & ASSOCIATES INC	1,177,100	47,084.00	0.0400
SANDLER O'NEILL	21,200	848.00	0.0400
SCHWAB SOUNDVIEW CORP	106,800	\$2,136.00	0.0200
SPEAR LEEDS & KELLOGG	55,587	\$555.87	0.0100
STANDARD & POOR'S	1,952,560	78,102.40	0.0400
STATE STREET BROKERAGE	3,700	111.00	0.0300
THOMAS WEISEL PARTNERS	7,200	288.00	0.0400
U S BANCORP PIPER JAFFRAY	40,500	\$3,395.00	0.0838
UBS/PAINE WEBBER INC	4,927,190	\$197,087.60	0.0400
WACHOVIA SECURITIES	1,685,156	71,056.24	0.0422
WEDBUSH MORGAN SECURITIES	88,300	3,532.00	0.0400
WEEDEN & CO	2,948,012	117,920.48	0.0400
<b>TOTAL</b>	<b>79,540,198</b>	<b>3,070,688.17</b>	<b>0.0386</b>

The over-the-counter commission rate on medium to large capitalization stocks is assumed to be \$0.05 per share. The acquisition of initial public offerings (IPOs) represented a portion of small capitalization stock purchases. IPOs usually have a high commission rate; however, the security issuers and not the investors pay the commissions. In 2004-05, the System bought small capitalization IPOs that generated \$67,787.00 in commissions. Although these commissions were not paid by the Retirement System, they resulted from the System's investment activities and are included in the total commissions of \$3,070,688.17. Typical stock transactions occur at lower commission rates than IPO transactions, frequently \$.04 per share. Investment companies usually provide investment research for brokerage clients. On occasion, investment companies direct third party research to active clients. The Retirement System received third party research through BNY Brokerage, Merrill Lynch and Lehman Brothers. Trading commissions of \$527,808.56 were associated with third party research obligations. The primary research providers were: Bloomberg, Interactive Data, CRA/Rogers Casey, QED Information Systems, and Vestek.

**Ten Largest Stock Holdings Ranked  
by Market Value  
06/30/05**

<u>Rank</u>	<u>Name</u>	<u>Shares</u>	<u>Market Value</u>
1	Microsoft	8,864,500	220,194,180.00
2	Citigroup Inc	4,643,895	214,687,265.85
3	General Electric Co	6,028,690	208,894,108.50
4	Exxon Mobile Corp	3,190,200	183,340,794.00
5	Pfizer Inc	4,921,487	135,734,611.46
6	Johnson & Johnson	2,057,454	133,734,510.00
7	Bank of America Corp	2,899,756	132,257,871.16
8	Wells Fargo & Co.	1,825,175	112,394,276.50
9	ConocoPhillips	1,709,214	98,262,712.86
10	Target Corp	1,783,050	97,015,750.50

**Top Ten Fixed Income Holdings  
06/30/05**

<u>Rank</u>	<u>Description</u>	<u>Maturity</u>	<u>Coupon</u>	<u>Par</u>	<u>Market Value</u>
1	US Treasury Bonds	08/15/2023	6.250%	86,500,000.00	107,797,251.50
2	US Treasury Notes	05/15/2007	4.375%	77,000,000.00	78,025,640.00
3	US Treasury Bonds	08/15/2029	6.125%	59,325,000.00	75,748,295.70
4	US Treasury Bonds	02/15/2021	7.875%	46,500,000.00	65,821,122.00
5	FNMA Notes	02/15/2006	5.500%	49,525,000.00	50,066,704.45
6	US Treasury Notes	08/31/2005	2.000%	50,000,000.00	49,900,400.00
7	US Treasury Bonds	05/15/2016	7.250%	35,500,000.00	45,458,034.00
8	US Treasury Bonds	02/15/2026	6.000%	36,300,000.00	44,725,556.70
9	US Treasury Bonds	08/15/2021	8.125%	29,815,000.00	43,283,001.99
10	US Treasury Notes	08/15/2013	4.250%	40,000,000.00	41,000,000.00

**Schedule of Investments  
as of June 30, 2005**

<b>Investment</b>	<b>Par Value* or Remaining Principal Balance</b>	<b>Market Value</b>	<b>Percentage of Market Value</b>
Repurchase Agreements	1,287,800,000.00	1,287,800,000.00	9.50
Total Short Term	1,287,800,000.00	1,287,800,000.00	9.50
Treasury Notes and Bonds	1,051,300,000.00	1,224,204,753.63	9.03
Agencies	1,101,154,310.14	1,150,974,689.76	8.49
GNMA (Single Family)	37,496,184.14	39,496,334.78	0.29
Collateralized Mortgage Obligations	25,329,919.72	25,673,217.26	0.19
Treasury Strip Bonds	118,000,000.00	104,467,004.00	0.77
Total U.S. Government Obligations	2,333,280,414.00	2,544,812,999.43	18.77
Industrials	544,875,601.63	591,007,452.66	4.36
Finance	868,483,827.42	886,000,915.33	6.54
Utility Bonds (Except Telephone)	106,400,000.00	112,350,505.20	0.83
Telephone Bonds	73,946,000.00	80,660,661.60	0.59
Total Corporate Bonds	1,593,705,429.05	1,670,019,534.79	12.32
FHA & VA Single Family Mortgages	5,911.86	6,526.22	0.00
Project Mortgages (FHA & GNMA)	14,773,587.79	18,317,771.51	0.14
State and Local Government Issues	31,875,000.00	36,634,480.58	0.27
Total Other Fixed Income	46,654,499.65	54,958,778.31	0.41
Subtotal (Fixed Income)	5,261,440,342.70	5,557,591,312.53	41.00
Real Estate Equity	390,128,505.33	386,004,452.80	2.85
Total Real Estate Equity	390,128,505.33	386,004,452.80	2.85
Common Stocks 102,223,145 Shares	3,856,005,125.14	4,071,603,297.04	30.03
Small Cap Stocks 8,873,870 Shares	159,159,528.38	181,116,280.90	1.34
600 Stock Index 5,957,145 Shares	140,353,045.65	171,913,744.49	1.27
500 Stock Index 89,930,505 Shares	3,092,345,009.72	3,187,564,131.15	23.51
Total Stocks 206,984,665 Shares	7,247,862,708.89	7,612,197,453.58	56.15
Subtotal (Equity)	7,637,991,214.22	7,998,201,906.38	59.00
Total Investments	12,899,431,556.92	13,555,793,218.91	100.00

\* In this asset display, par value represents the redemption value of bonds and the cost value of equities. Market value is a volatile measure that changes daily and represents the approximate transaction value of an investment on a particular day--in this case June 30, 2005. Detailed information concerning these values along with book values and cost values of all KTRS investments is available on request.

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